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REXALL DRUG, INC.

Rexall

ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 1952

directors

Earl E. Anderson	Montclair, N. J.
Arthur S. Barrows	Greenwich, Conn.
C. Earl Cooper	Los Angeles, Calif.
Justin W. Dart	Los Angeles, Calif.
Scott J. Dow, Jr.	Los Angeles, Calif.
Paul A. Draper	Boston, Mass.
Joseph A. Galvin	Los Angeles, Calif.
James Knowles, Jr.	St. Louis, Mo.
F. Thatcher Lane	New Haven, Conn.
Walter T. Lillie	Los Angeles, Calif.
James L. Richards	Boston, Mass.
Adé Schumacher	New York, N. Y.
James E. Shelton	Los Angeles, Calif.
Vernon F. Taylor	San Antonio, Texas

executive committee

Justin W. Dart, *Chairman*	Los Angeles, Calif.
Earl E. Anderson	Montclair, N. J.
F. Thatcher Lane	New Haven, Conn.
Walter T. Lillie	Los Angeles, Calif.
Vernon F. Taylor	San Antonio, Texas

officers

Joseph A. Galvin	Chairman of the Board
Justin W. Dart	President
C. Earl Cooper	Vice-President
Scott J. Dow, Jr.	Vice-President
James Knowles, Jr.	Vice-President
F. Thatcher Lane	Vice-President
Walter T. Lillie	Vice-President and Treasurer
Rudolph J. Drews	Controller
Harold E. Price	Secretary

transfer agents — Guaranty Trust Company of New York, New York — State Street Trust Company, Boston — Bank of America National Trust & Savings Association, Los Angeles

registrars — The Chase National Bank of the City of New York, New York — The National Shawmut Bank of Boston, Boston — California Trust Company, Los Angeles

independent auditors — Price Waterhouse & Co.

general headquarters — Rexall Square, 8480 Beverly Blvd., Los Angeles 48, California

THE PRESIDENT'S LETTER

TO THE STOCKHOLDERS OF REXALL DRUG, INC.:

sales Consolidated net sales of your Company and its subsidiaries for 1952 were $178,293,228 as compared with $164,277,622 in 1951.

Increases in sales were about evenly distributed among (1) company-owned retail stores, including our two combination drug-grocery stores, (2) the sales of Rexall products to Rexallites, and (3) our manufacturing subsidiaries, which include V.C.A. Laboratories, acquired as of September 1, 1952. Sales of Riker Laboratories, Inc. were higher for the year.

Eight retail drug stores were opened during 1952, 27 were closed or sold and 15 were enlarged or substantially remodelled. At the end of 1952 we were operating 255 stores in the United States and 34 stores in the Dominion of Canada. This compares with 274 stores in the United States and 35 stores in Canada at December 31, 1951.

earnings Consolidated net earnings of your Company and its subsidiaries before special charges and credits amounted to $1,960,275 for the year ended December 31, 1952, or 56¢ per share on 3,501,120 shares, as compared with $1,917,231, or 55¢ per share on a similar number of shares in 1951.

The following simplified statement of profit and loss gives a comparison of the two years:

	1952	*1951*
We received from our customers for products sold . . .	$178,293,228	$164,277,622
We spent or set aside for:		
Purchase of materials, products and supplies and expenses of manufacturing, distribution and administration	127,164,955	116,720,911
Wages and salaries of employees	41,269,920	37,848,447
Local, State and Federal taxes	4,814,455	4,779,722
Interest on borrowed money	918,412	944,558
Wear and tear on plant and equipment	2,165,211	2,066,753
Making total expenses	$176,332,953	$162,360,391
Leaving net earnings for the year, before special charges and credits	$ 1,960,275	$ 1,917,231

THE PRESIDENT'S LETTER

During the year the following special charges and credits were made which are not included in the net earnings as stated above:

charges		
Write-off of goodwill resulting from acquisition of V.C.A. Laboratories....................	$	150,014
Provision to reserve for miscellaneous investments — to state them at cost or approximate book value, whichever is lower............		440,000
	$	590,014
credits		
Restoration of provisions for prior years' Federal income taxes no longer required......	$	600,000

For the full year of 1952 profits from the retail and manufacturing divisions were lower than in 1951, but the Rexall division showed an increase in profits for the year. The three major divisions — retail stores, Rexall, and the manufacturing subsidiaries — all produced increased profits in the last six months of 1952 as compared with the same period of 1951. Our ethical drug manufacturing subsidiary, Riker Laboratories, operated at a loss for the year due to planned higher costs of expanded research and selling.

acquisition of v. c. a. laboratories V.C.A. Laboratories, a rapidly growing company in the proprietary vitamin field, was acquired on September 1, 1952 by purchase of all of its outstanding capital stock; its earnings since that date have been satisfactory and are included in the 1952 figures. The initial payment on this stock was $445,000, which was approximately $150,000 in excess of book value, and in accordance with our policy of carrying goodwill at a nominal value, the amount was written off. No further payments are required until net earnings after taxes of V.C.A. under Rexall ownership equal the initial payment after which Rexall is obligated to make further payments to the selling stockholders of V. C. A. measured by the future profits after taxes of V. C. A. While the total purchase price cannot be determined for some years, future payments are limited in the aggregate to about one half of future V. C. A. earnings after taxes until December 31, 1960 or $4,500,000, whichever amount is smaller. Because future payments will be required only if V. C. A. has earnings after taxes, this purchase involves very little risk for Rexall.

This company will continue under its present management and its merchandising and promotional policies will remain unchanged. It is planned to consolidate manufacturing production of V.C.A. with existing Rexall facilities and this move should create economies and efficiency in both organizations.

Rybutol (Vitamin B Complex) is the principal product of V.C.A. It enjoys excellent public acceptance.

This acquisition does not change the Rexall division's policies in any way. All Rexall trade-marked products will continue to be sold as exclusive products under the Rexall Franchise plan.

financial position The following is a summarized statement of financial position at the beginning and end of the year:

	DECEMBER 31	
	1952	*1951*
current assets:		
Cash (including short term marketable securities)	$10,011,775	$13,445,805
Receivables — less reserve	12,849,299	10,277,975
Inventories of merchandise, partly finished stocks, materials and supplies	38,246,630	36,274,702
Total Current Assets	$61,107,704	$59,998,482
current liabilities:		
Accounts payable and accrued expenses	$13,985,362	$12,345,841
Current instalments of long term indebtedness	1,504,725	1,498,118
Estimated Federal and Canadian taxes on income	2,594,896	3,843,713
Total Current Liabilities	$18,084,983	$17,687,672
Net Working Capital	$43,022,721	$42,310,810
Investments and advances	3,197,911	3,350,997
Property accounts	21,223,911	21,751,713
Prepaid expenses and deferred charges	886,338	843,824
Goodwill, trademarks, etc.	1	1
Total	$68,330,882	$68,257,345
Less — Real estate obligations	1,216,531	1,241,770
Other long term indebtedness	24,927,500	26,378,500
Stockholders' Equity	$42,186,851	$40,637,075

The stockholders' equity, shown above, is equivalent to $12.05 per share at the end of 1952, compared with $11.67 per share at the end of 1951.

Long term debt, including real estate obligations, was reduced $1,476,239 during the year. The increase in inventories and receivables which resulted in the lower cash position was in line with increased current sales and reflects consolidation with V.C.A. Laboratories.

inventories We believe that inventory turnover can be improved in some divisions and that anticipated increased sales in 1953 can be covered with only a moderate increase in overall inventories.

compensation to management Total compensation to your officers and directors was $301,667 for services rendered in 1952 compared with $325,075 in 1951. This sum amounted to less than two tenths of one per cent (0.2%) of consolidated net sales, or seven tenths of one per cent (0.7%) of total consolidated payroll.

THE PRESIDENT'S LETTER

dividends A dividend of 15¢ per share was paid to stockholders on December 10, 1952, amounting to $525,018. This compares to 10¢ per share or $348,095 paid in the previous year.

outlook and plans **COMPANY-OWNED STORES** During 1953 the retail companies will operate with approximately 8% fewer stores than in 1952 but are expected to show increased profits for the year. Profits from the drug-grocery combination stores have been very satisfactory and we plan to open another store of this type within the next year.

REXALL TRADE-MARKED PRODUCTS During 1953 we are celebrating our 50th Golden Anniversary. Extensive plans have been made and are being executed to make this, by far, the greatest merchandising year in Rexall's history. This division should produce an increase in sales and profits in 1953.

MANUFACTURING SUBSIDIARIES Moderate improvement in sales and profits is anticipated from our manufacturing division for the year 1953.

RIKER — ETHICAL PRODUCTS DIVISION We plan to introduce several new specialty products during 1953 and our principal product, Veriloid, should continue a gradual increase in sales. Foreign sales of Riker products are being expanded in 1953. Our operating loss is expected to continue at approximately the present rate during the first six months of 1953. We anticipate considerable improvement in the last six months. Riker should operate profitably in 1954.

V.C.A. LABORATORIES This newly acquired subsidiary will continue its vigorous promotion of Rybutol and its other proprietary vitamin products. Several new products will be introduced during the year to diversify and expand its operations. Expectations are for increased sales sufficient to produce a profit for 1953 which should represent a good return on your Company's investment.

summary of outlook Historically we make the majority of our profit in the last six months of each year. This pattern will continue in 1953. Prospects for the first half of 1953 and for the year as a whole should show a substantial improvement compared with 1952.

conclusion In this, our Golden Anniversary year, we earnestly solicit your active help. Patronize the more than 10,000 Rexall drug stores throughout the United States and Canada — use Rexall products — sell them to your friends!

We urge you to exercise your voting rights and to mail your proxy as speedily as possible in case you cannot be present in person at the Stockholders' Meeting.

Respectfully submitted,

J W Dart.

March 17, 1953

J. W. DART, PRESIDENT

REXALL DRUG, INC.

AND ITS UNITED STATES AND CANADIAN SUBSIDIARIES

consolidated statement of earnings and earnings retained and used in the business

	1952	1951
Sales, less returns, allowances and discounts	$178,293,228	$164,277,622
Cost of sales, selling, distribution, promotional and administrative expenses, etc.	(171,249,330)	(157,349,080)
Depreciation	(2,165,211)	(2,066,753)
Interest on indebtedness	(918,412)	(944,558)
Provision for Federal and Canadian taxes on income	(2,000,000)	(2,000,000)
NET EARNINGS FOR YEAR	$ 1,960,275	$ 1,917,231
Special items:		
Write-off of goodwill resulting from acquisition of V.C.A. Laboratories *(see page 2 of President's letter)*	(150,014)	
Provision to reserve for miscellaneous investments to state them at cost or approximate book value whichever lower	(440,000)	
Restoration of provisions for prior years' Federal income taxes no longer required	600,000	
Net earnings for year and special items	$ 1,970,261	$ 1,917,231
Earnings retained and used in the business at beginning of year	21,352,578	19,783,442
Dividends paid – 15¢ per share in 1952, 10¢ per share in 1951	(525,018)	(348,095)
Earnings retained and used in the business at close of year	$ 22,797,821	$ 21,352,578

REXALL DRUG, INC.* AND ITS UNITED

CONSOLIDATED BALANCE SHEETS

assets

	1952	1951
current assets		
Cash in banks and on hand	$ 9,736,775	$13,445,805
Marketable securities, at cost *(market quotation approximately $275,000)*	275,000	
Accounts and notes receivable, less estimated losses in collection –		
Customers	10,823,989	8,294,753
Others	2,025,310	1,983,222
Inventories of merchandise, partly finished stocks, materials and supplies – at cost or market whichever lower	38,246,630	36,274,702
Total Current Assets	$61,107,704	$59,998,482
investments and advances, etc.		
Investments in and advances to wholly owned English and South African subsidiaries not consolidated *(net assets of these subsidiaries were $690,000 at December 31, 1952)*	$ 336,239	$ 333,922
Miscellaneous investments, at or below cost	1,428,174	1,840,411
Noncurrent receivables, advances and deposits	1,433,498	1,176,664
	$ 3,197,911	$ 3,350,997
property accounts, at cost		
Land, buildings and building fixtures	$11,617,495	$11,607,202
Machinery and equipment, etc.	13,693,813	12,713,319
Store fixtures, leaseholds and improvements, etc.	16,264,313	16,859,263
	$41,575,621	$41,179,784
Less – Accumulated depreciation	20,351,710	19,428,071
	$21,223,911	$21,751,713
deferred charges		
Prepaid insurance, taxes, rent, etc.	$ 828,649	$ 776,308
Unamortized discount and expense on long term indebtedness	57,689	67,516
	$ 886,338	$ 843,824
goodwill, trademarks, etc.	$ 1	$ 1
	$86,415,865	$85,945,017

Incorporated in Delaware

STATES AND CANADIAN SUBSIDIARIES

DECEMBER 31, 1952 AND DECEMBER 31, 1951

liabilities

	1952	1951
current liabilities		
Accounts payable and accrued expenses	$13,985,362	$12,345,841
Current instalments of long term indebtedness	1,504,725	1,498,118
Estimated Federal and Canadian taxes on income *(liability for 1945 and prior years settled)*	2,594,896	3,843,713
Total Current Liabilities	$18,084,983	$17,687,672
long term indebtedness, less current instalments shown above		
Bank loans due to May 1956	$ 287,500	$ 537,500
Sinking fund debentures, 3¾% due 1961, authorized and issued $2,500,000	1,500,000	1,700,000
Sinking fund debentures, 3% due 1965, authorized and issued $25,200,000	23,140,000	24,141,000
Real estate obligations	1,216,531	1,241,770
	$26,144,031	$27,620,270
stockholders' equity		
Capital stock of Rexall Drug, Inc. Authorized – 5,000,000 shares, par value $2.50 each Issued – 3,501,120 shares	$ 8,752,800	$ 8,752,800
Other paid in capital	10,641,669	10,640,744
Earnings retained and used in the business, per accompanying statement *(under indentures securing long term indebtedness, $915,000 of the retained earnings at December 31, 1952 is not restricted as to payment of dividends)*	22,797,821	21,352,578
	$42,192,290	$40,746,122
Less: – Cost of capital stock of Rexall Drug, Inc. acquired and held by a subsidiary – 1,000 shares in 1952 and 20,170 shares in 1951	5,439	109,047
	$42,186,851	$40,637,075
	$86,415,865	$85,945,017

At December 31, 1952 the companies were committed under some 220 leases expiring more than three years after that date with minimum annual rentals of approximately $3,500,000. Approximately 6 per cent of this amount relates to leases expiring more than 25 years after December 31, 1952.

INDEPENDENT AUDITORS REPORT

PRICE WATERHOUSE & CO.

530 WEST SIXTH STREET
LOS ANGELES 14

March 4 1953

To the Board of Directors of
Rexall Drug, Inc:

In our opinion, the accompanying statements present fairly the financial position of Rexall Drug, Inc. and its subsidiary companies at December 31 1952 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of such statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

REXALL DRUG, INC.

Consolidated Statistical Summary

*financial operations**

	1952	1951	1950	1949	1948
Net sales	$178,293	$164,278	$153,643	$156,364	$173,907
Earnings (loss) before Federal and Canadian income taxes and special items	$ 3,960	$ 3,917	$ 3,699	$ (1,715)	$ 1,716
Federal and Canadian income taxes (credit)	$ 2,000	$ 2,000	$ 1,675	$ (465)	$ 300
Net earnings (loss)	$ 1,960	$ 1,917	$ 2,024	$ (1,250)	$ 1,416
Earnings (loss) per share of common stock	56¢	55¢	58¢	(36¢)	40¢

*financial position**

	1952	1951	1950	1949	1948
Cash and marketable securities	$ 10,012	$ 13,446	$ 8,556	$ 14,399	$ 16,016
Accounts receivable	12,849	10,278	12,153	8,836	8,435
Inventories	38,247	36,274	39,433	34,284	38,979
Current Assets	$ 61,108	$ 59,998	$ 60,142	$ 57,519	$ 63,430
Less: Current Liabilities	18,085	17,688	17,469	15,027	16,840
Working Capital	$ 43,023	$ 42,310	$ 42,673	$ 42,492	$ 46,590
Property, machinery and equipment (net)	$ 21,224	$ 21,752	$ 20,499	$ 20,185	$ 19,885
Investments, advances, prepaid expenses, etc.	4,084	4,195	4,182	3,787	2,762
Less: Real estate obligations	1,216	1,242	353	147	158
Other long term indebtedness	24,928	26,378	27,785	29,260	30,735
Reserves	none	none	151	834	741
Stockholders' equity	$ 42,187	$ 40,637	$ 39,065	$ 36,223	$ 37,603
Stockholders' equity – amount per share	$ 12.05	$ 11.67	$ 11.22	$ 10.45	$ 10.84
Number of stockholders	16,225	17,033	17,582	19,554	20,880

***In Thousands of Dollars**

THE REXALL FRANCHISE

WHAT IT MEANS TO AN INDEPENDENT DRUGGIST

The Rexall franchise, America's most valuable drug affiliation, provides these exclusive advantages for the independent druggist:

1. *protected profits*

   His territory and the Rexall brands he sells are his exclusively in his trading area.

2. *fast turnover*

   Public acceptance of the Rexall line of quality products guarantees fast turnover.

3. *national advertising*

   Rexall's magazine and network radio advertising create immediate local demand and sales.

4. *proved acceptance*

   National surveys show Rexall is now the best-known name in drugs.

5. *exclusive distribution*

   No other retailer can stock Rexall products; no nearby druggist can obtain a Rexall franchise.

6. *complete lines*

   Rexall offers more than 5,000 profit-protected products.

7. *merchandise assistance*

   Rexall makes available display assortments, circulars, newspaper mats, radio commercials, and other advertising aids coordinated with its national advertising, plus such services as clerk training films, store planning, and exterior and interior Rexall signs.

8. *freight prepayment*

   Rexall pays the freight on all regular merchandise orders of $50 or more.

Rexallites have found the Rexall franchise their biggest asset. Through their 10,000 stores passes 25% of America's drug store traffic.

Joseph A. Galvin

Justin W. Dart

C. Earl Cooper

1903-1953, REXALL'S GOLDEN ANNIVERSARY

To mark this occasion and to build an aggressive merchandising effort around it, Golden Anniversary Meetings are being held with Rexallites and their salespeople. The meetings, which started early in January, are being held in more than twenty-five key cities in the United States and Canada. To accomplish this, Chairman of the Board J. A. Galvin, President Justin Dart and Vice-President of Marketing Earl Cooper, are living several months "on the road" as they unfold full details of the anniversary plans at these meetings. They are urging Rexall Dealers to cooperate more fully with the Rexall national advertising program and to sell Rexall products more aggressively. A movie, entitled "The Rexall Story" is being shown. The motion picture depicts Rexall's history from the time of its founding in 1903 by Louis K. Liggett and shows Rexall's actual, present-day drug production in its various plants. The film will help acquaint the Rexallites with their role in those ambitious plans as well as inform them on the quality of the products they sell.

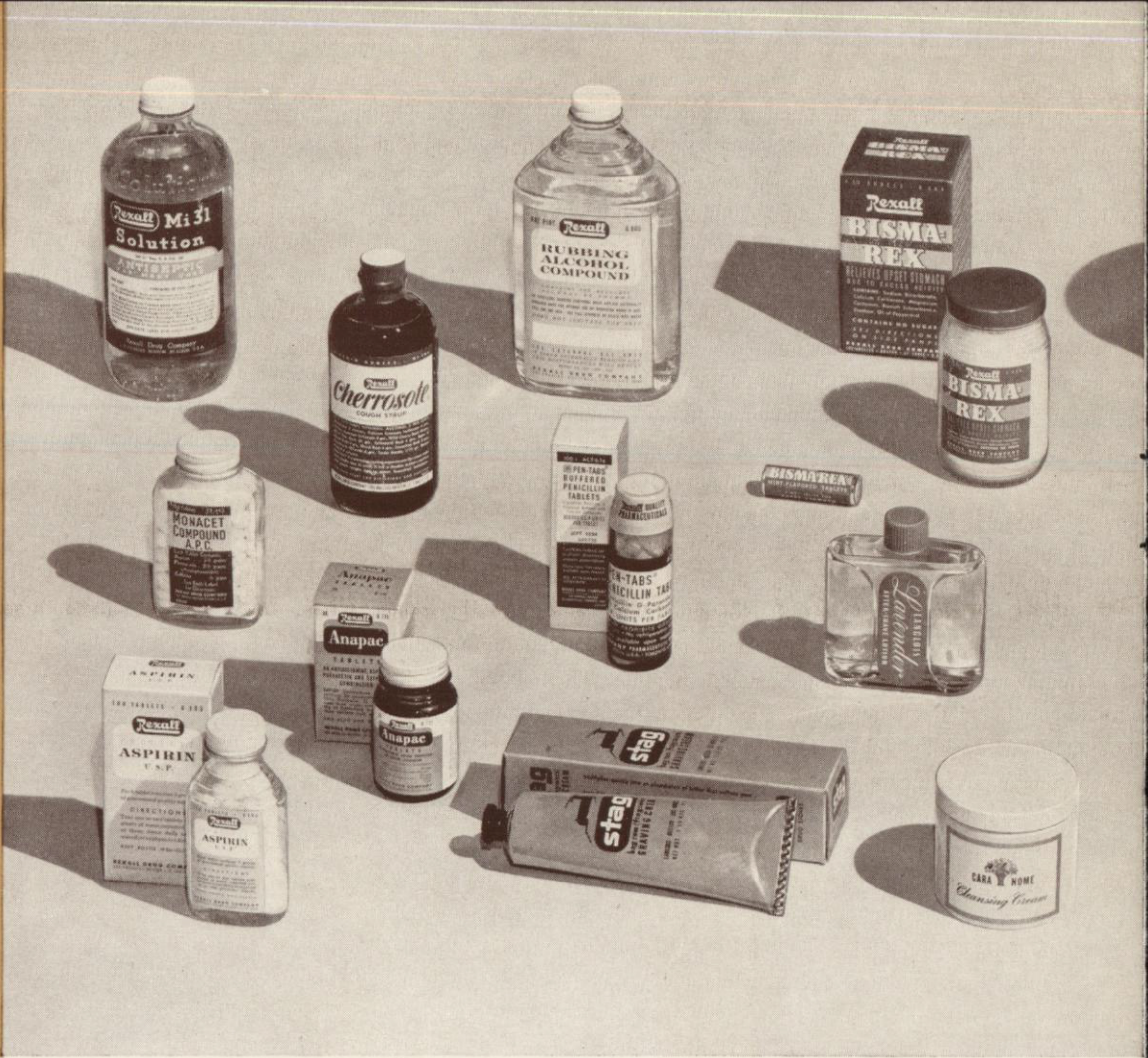
The Golden Anniversary year will see your Company's biggest advertising and merchandising campaigns designed to break all records of sales of Rexall products to Rexall Dealers.

Neatly tied into this drive is a new franchise plan which promises to bring hundreds of new independent druggists into the Rexall family. The plan, based on low initial investment, will increase Rexall's distribution coverage throughout the nation. The program is being revealed at the Golden Anniversary Meetings and the Rexall druggists will themselves materially aid in this new program of securing desirable Dealers.

If you know of a good independent druggist who might be interested in becoming a Rexall Franchise Dealer, please send his name to Mr. C. Earl Cooper, 8480 Beverly Boulevard, Los Angeles, California. We will appreciate it and follow up on any leads you send in.

REXALL PRODUCTS

Shown at right are 21 products produced in Rexall's laboratories and plants. They are representative of the more than 5,000 drug and sundry items in your company's line. As stockholders, you should regularly buy and use the many household drug and sundry items sold by Rexall Drug Stores everywhere.


Rexall Mi 31 Solution
Cherrosote
Rubbing Alcohol Compound
Rexall Bisma-Rex
Bisma-Rex
Monacet Compound A.P.C.
Pen-Tabs Buffered Penicillin Tablets
Pen-Tabs Penicillin Tabs
Amapac
Anapac
Aspirin U.S.P.
Lavender
stag
Cara Nome Cleansing Cream

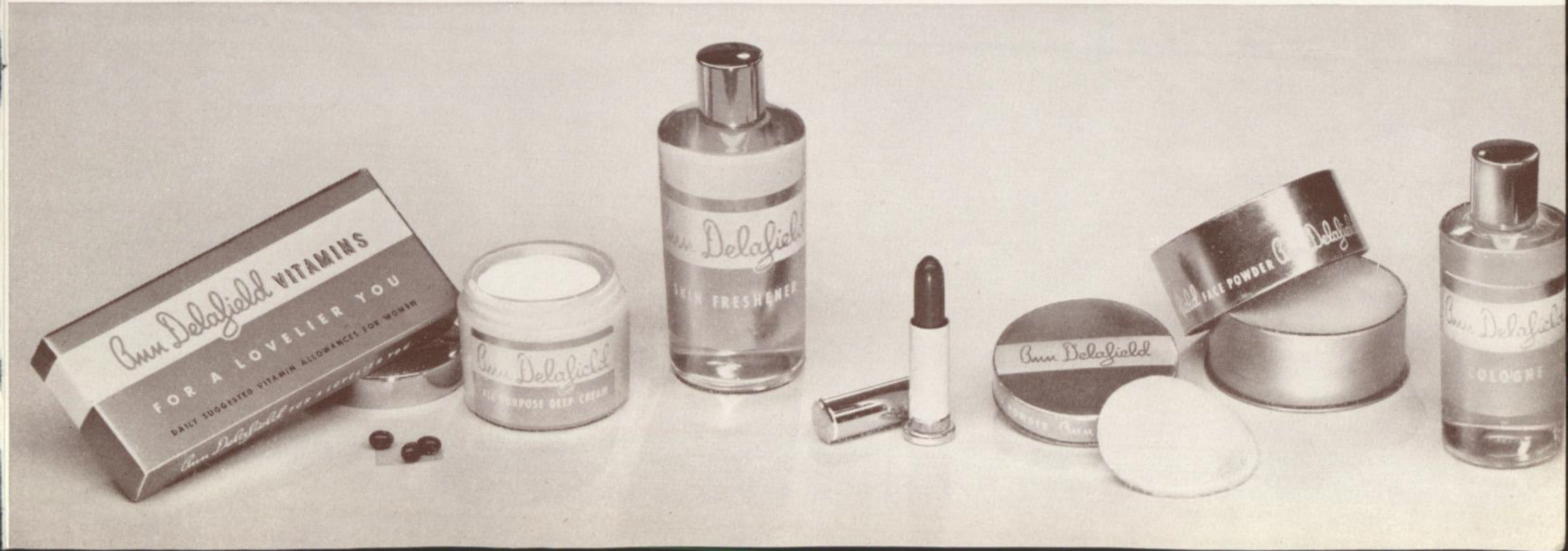
NEW ANN DELAFIELD PRODUCTS

it's easy - it's fun
Ann Delafield
appetite reducing plan
no calorie counting

In May of 1952, Rexall launched a totally new reducing plan in association with a name long known among the women of America – Ann Delafield. This product, exclusive with Rexall, was received enthusiastically by Rexall druggists and customers alike. Sales of this scientific weight reduction plan, backed by the greatest single advertising and promotional campaign ever undertaken on a single product by your Company, have been strong after a very auspicious introduction. A remarkable feature of the Ann Delafield Reducing Plan was the reception received by magazine and newspaper beauty editors throughout the land. Many unsolicited and hard-selling editorial stories in leading magazines aided sales substantially.

Gales $50,000
GENUINE CHOCOLATE FLAVORED SYRUP
Lord Baltimore
Writing Portfolio
LINEN FINISH
REEL ROLL COTTON
Rexall
REEL-ROLL COTTON
American Custom
ASSORTED CHOCOLATES
27 STERILIZED STRIPS PLASTIC QUIK-BANDS
Rexall
PLASTIC QUIK-BANDS
Rexall
PLENAMINS
PLENAMINS
Spuntex
FUNGI REX

In recent weeks and in wake of the successful Reducing Plan, Rexall has released a revolutionary new line of Ann Delafield Cosmetics. In the belief that there are far too many items in cosmetic lines, Ann Delafield has held to a simple, eight-item "no nonsense" line that accomplishes everything required in modern beauty routine. The line is beautifully packaged in the high-style manner that befits its place in Rexall Drug Stores cosmetic counters. Key item is the innovation of the deep cream – one cream that serves every purpose in milady's beauty rituals. Already assured of acceptance by almost all Rexall druggists, the line is being supported by a hard-hitting national advertising campaign and a battery of new and unusual merchandising aids for use by Rexallites at the point of sale. Based on early reaction, the Ann Delafield Cosmetics hold a very promising future.


Ann Delafield VITAMINS
FOR A LOVELIER YOU
DAILY SUGGESTED VITAMIN ALLOWANCES FOR WOMEN
Ann Delafield
ALL PURPOSE DEEP CREAM
Ann Delafield
SKIN FRESHENER
Ann Delafield
FACE POWDER Ann Delafield
Ann Delafield
COLOGNE

Rexall